



Title: **Privatising CTT: Factors behind the success**

School: Nova School of Business and Economics

Field of Study: Management

Purpose: Work Project for obtaining the Degree of
Master in Management

Author: Renato Sousa Antunes

Thesis Supervisor: Prof. Doctor Duarte Pitta Ferraz

Academic Year: 2016/2017

Date: 25 May, 2017

Acknowledgements

The author would like to extend his sincere and grateful thanks to **Francisco de Lacerda**, Chief Executive Officer of CTT, which is the subject of this case-study. The in-depth interview given by him, which took time that normally a CEO would not afford a project of this sort, constituted a most important element of the development of this case-study.

I am equally indebted to **Professor Doctor Duarte Pitta Ferraz** for his superb supervisory guidance and readiness to offer his expertise and help throughout the entire process.

This case-study was developed by Renato Sousa Antunes based on both open sources and information collected from eleven semi-structured interviews (thirteen interviewees). The author is grateful to the representatives of all the different stakeholders who agreed to be interviewed – from CTT’s Executive Committee, the Portuguese Government, Parública, CMVM, financial advisors, legal advisors, and other stakeholders – for their insights into the factors that led to CTT’s highly successful privatisation. In the Appendix are the Exhibits: Exhibit 1 provides a list of interviewees together with a short version of their CVs.

Exhibit 2 details the composition and duties of the Special Scrutiny Commission for the Monitorization of CTT’s Privatisation Process (SCPM), responsible for the final report on the operation.

Abstract

The aim of this case-study is to analyse the privatisation process of CTT, the Portuguese mail services company founded in 1520. Emphasis is on the key events and turning points where decisions made by CTT management, the Portuguese Government, and/or external advisors improved processes or solved complex challenges (e.g. strategic review, definition of the privatisation model, or Road Show plan). A chronological structure presents the company and the motivations to privatise it. The preparation process for privatisation is explained and then how Phase 1 of the operation was implemented – including notes on the day-to-day project management. Finally, Phase 2 of the privatisation process is addressed.

Key words: case-study, CTT, Portuguese mail service, privatisation, direct sale, trade deal, IPO, prospectus, accelerated bookbuild, key success factors

Privatising CTT: Factors behind the success

“I consider that the final results and the fact we did so within the defined short period, shows that the privatisation was a huge success.” (Lacerda, 2016)

One can imagine the first day Francisco de Lacerda stepped through the beautiful iron gates of Palace Sousa Leal, Rua de São José in Lisbon. Built in the eighteenth century, the palace served as the headquarters for CTT – Correios de Portugal – the incumbent Portuguese Postal Service provider. Francisco de Lacerda had just been appointed by the Portuguese Government as CEO of the company in order to successfully lead its privatisation. While picturing CTT’s success over almost five centuries, also on the CEO’s mind were the enormous challenge of adopting a different business model to ensure the company’s survival in the changing world of globalised postal services and the future objective of gaining a leading position in all the main markets in which the company operates. Francisco de Lacerda recalls that “the rush to privatise CTT during 2013 was also a result of the Memorandum of Understanding” (Lacerda, 2016), which governed the financial help Portugal received from the European Union, IMF and ECB¹ (EC, 2011); this is a point substantiated by Sérgio Monteiro:² “the Government was totally devoted to fully complying with the Memorandum of Understanding” (Monteiro, 2017).

In an in-depth interview with the case study’s author, CTT’s CEO revealed that his “main role had been clear since accepting the invitation from the Prime-Minister to lead CTT” (Lacerda, 2016); as CEO, his role involved creating the perfect conditions for the reprivatisation of the historic Portuguese mail company and to successfully guide employees and other stakeholders through the multidimensional process. The CEO needed to conduct a thorough strategic review before the operation began. What needed to change? How should the company organise its growth-drivers in

¹ The designation given to the triumvirate the IMF, the European Central Bank (ECB) and the European Commission is the Troika.

² The Secretary of State for Infrastructures, Transport and Communications, responsible for the launch of the privatisation process.

order to build corporate advantage? Which would be the most suitable model to privatise the company: either to perform a strategic direct sale, the safer and easier option; or to execute a riskier capital markets transaction which, as Sérgio Monteiro argued, “would allow CTT to better exploit technological improvement and growth capacity on the CEP³ market”?

Since the intention was to conclude the privatisation process before the end of 2013, the 2012 Annual Report would be the basis for the operation. In 2013 the time restrictions would remain as “the privatisation would occur either in the second or third quarter”. (Lacerda, 2016).

The Main motivation to privatise: The Memorandum of Understanding

In 2012, the Portuguese economy was especially weak and, if the situation was tough for all companies, it was even harder for SOEs.⁴ The Portuguese Government concluded that the country would need external help to solve its severe economic problems. To seal the agreement with the Troika, a Memorandum of Understanding was signed by both parties. The European Union pledged to provide financial assistance to Portugal “on the basis of a policy programme supported by strict conditionality” (EC, 2011). The government’s key objective for CTT was clear: “to privatise⁵ the company for the highest possible value” in an operation that needed to be carried out quickly, but just as importantly, very professionally and neatly as well (Lacerda, 2016).

The government also considered both financial capacity and the expertise⁶ of senior management as requirements *sine qua non* for CTT’s new chapter (Monteiro, 2016).

CTT, the unparalleled history of Portuguese Mail Service

“The millenarian and constant need of Men to exchange messages incited Kings, first, and States, later, to invest every resource to beat the distance.” (FPC, n.d.)

³ Courier, Express, and Parcels (CEP).

⁴ State-owned enterprises (as the CTT was).

⁵ The Decree-Law no. 129/2013, dated 6 September, confirmed the political decision by officially approving the privatisation process of CTT.

⁶ Mainly in order to strengthen its leading position in the CEP market (see Exhibit 3) and to increase its market share in financial services.

The history of CTT and the Portuguese mail service relates directly to the history of Portugal itself. The Age of Discovery put Portugal at the centre of the civilised world and, consequently, communications across borders became essential. CTT creation dates back to 1520. Dom Manuel I, King of Portugal, created the profession of Correio-Mor and nominated his knight Luís Homem as manager of the service. In 1606, the role of Correio-Mor was sold to the Portuguese marquis Luís Gomes da Mata; and the family kept hold of the business for two centuries. During the twentieth century, innovation was the main driver for Administração-Geral dos Correios, Telégrafos e Telefones;⁷ in 1992, the mail business was separated from the telecommunications part and the new company CTT – Correios de Portugal was created (FPC, 2016).⁸ During 2016, capitalizing on the know-how provided by the financial services area of the business, CTT decided to launch a commercial bank. Exhibits 4, 5, 6, 7, and 8 provide information about the company's key figures, highlights, and an overview of each business area.

Strategic Review: CTT to become more than a traditional postal services company

In order to prepare CTT for privatisation, initially, the financial and management team specifically set up for the process⁹ was tasked with executing an in-depth strategic review. “Privatising the company was not an end in itself” Dionísia Ferreira¹⁰ explains, but “part of a greater transformation plan for CTT's future”. And as Ferreira (2017) points out, since the challenge of “transforming a company with this scope and scale is a never-ending process”, CTT has been in a transformational era since 2012. André Gorjão Costa (2015)¹¹ reveals the phases in which the transformation plan was structured: “(1) reorganizing for success; (2) redefining mission, vision & values; (3) implementing initiatives; and (4) starting showing impact”.

⁷ The previous official designation of the company.

⁸ Current official designation of the company.

⁹ Francisco de Lacerda (CEO), André Gorjão Costa (CFO), Peter Tsvetkov (Privatisation Project Manager).

¹⁰ CTT Executive Director – another key figure for both the transformation plan and the privatisation.

¹¹ CTT's Chief Financial Officer (CFO).

From the outset, Francisco de Lacerda placed emphasis on doing everything by the book, challenging himself and his team not to take shortcuts. To the CEO, “having a comprehensive and robust plan is always as important as knowing how to implement it”. When questioned about how he foresaw the operation, Francisco de Lacerda pointed out the ancient rule of management based on the three “Ss”: Strategy, Structure, and Staffing. According to this, every process should be conducted in this exact order, without underestimating any element.

Regarding the strategic review of CTT, its CEO believed it was “crucial to understand exactly which type of company CTT was back then”, as well as “to delineate as accurately as possible the desired path for the group to pursue in the future” (Lacerda, 2016). Even down to CTT’s core business areas remaining the same, there was a need to go about “better organizing the company, as the relations between the sub-holdings and departments were not clear enough” (Lacerda, 2016). The renewed corporate structure can be consulted in Exhibit 9.

CTT is organised into three major business areas: Mail, CEP, and Financial Services. The new strategy the company has applied ever since “is based on two main axes”: (1) “value preservation” and (2) “growth levers”. The first axis was designed for the mail business segment specifically. Despite being the company’s oldest and most traditional area as in every postal company distributing mail is a declining activity. Therefore, the key effort in terms of mail distribution must be to preserve the sales volumes and value as much as possible. On the other hand, the company identified two business segments as levers to enhance its growth for the next years and decades: CEP and Financial Services. Francisco de Lacerda explains:

“Several initiatives were implemented on each business area. Plus, the postal bank project was approved by Bank of Portugal before the privatisation. So, when the privatisation took place we already had a banking license to set-up a bank.” (Lacerda, 2016)

For André Gorjão Costa (CFO), competency at this preliminary stage was essential to create an advantageous environment for the operation’s success. He emphasised that:

“The first step for preparing any privatisation is to get the strategy right. Taking the risk of running a privatisation without taking into account all the possible scenarios for the company will endanger the desired outputs.” (Costa, 2016)

The CFO also highlighted the need to co-operate with certain official institutions – i.e. ANACOM¹² – on several adjustments related to the regulatory framework in three main dimensions: (1) the concession contract;¹³ the (2) USO¹⁴ definition and compensation model; and (3) the regulatory model (Costa, 2015).

Managing people and implementing meritocracy

Managing people’s needs and expectations as smoothly as possible was key for Francisco de Lacerda, thus “delivering a calming message both inside and outside the company” played a critical role in the success of the operation (Lacerda, 2016). António Pedro Silva emphasises the ease by which the trade unions disseminated ideas against the privatisation, even though “many were false or at least misconceptions” (Silva, 2017). However, as the CEO states: “people were not aware of the true implications the privatisation would bring.” The implications became clearer at a meeting in April 2013: in an auditorium with more than 800 people present, the audience was astonished when the CEO explained that all the limitations imposed because of CTT’s SOE condition would cease on the exact day of the privatisation. Salaries would increase and bonuses would be conceded again. To his great surprise, “no one seemed to have reached that straightforward conclusion yet” (Lacerda, 2016). As Francisco de Lacerda points out, it is usual for historic companies to reach a point where its “head becomes too big”; by which he means that many such companies in similar cases have overestimated “the past” of some people. Conversely, CTT also exploited this pivotal moment to “put the right

¹² ANACOM – Autoridade Nacional de Comunicações has as its mission the regulation of the communications sector, including electronic and postal communications and, without prejudice to its nature as an independent administrative body, the provision of assistance to the Government in these areas. See online <<https://www.anacom.pt/render.jsp?categoryId=381764>> (last accessed 15 May 2017).

¹³ A contract under which the CTT is the player that assures the Universal Service Obligation (USO), at least until 2020.

¹⁴ USO – Universal Service Obligation (“SPU – Serviço Postal Universal”).

people in the right places” and to firmly implement a meritocracy scheme “to make the structure effective and motivated” (Lacerda, 2016).

Preparing the operation: The “To do” list

After nurturing the company towards its new chapter with effective leadership, now it was time to prepare the privatisation itself. André Gorjão Costa saw this preliminary stage as a “To do” list. The four main sub-phases were: (1) selection of advisors; (2) business plan; (3) pre-marketing; and, finally, (4) selection of the privatisation model (Costa, 2015).

As in every other detail of the operation, selection of the advisors followed the best international practices. Exhibit 10 is a list of advisors including consultants, financial advisors, legal firms, and auditors. The coordination of the different teams, all with various perspectives and expectations constituted additional complexity, since the Government and Parpública¹⁵ had to hire their own advisors (Exhibit 11). José Pedro Fazenda Martins¹⁶ claims that stimulating the best possible match between the advisors was “a challenge the management faced throughout the whole project” (Martins, 2017).

The operation’s business plan was exemplary. As André Gorjão Costa remembers, it was indeed a critical concern for CTT. Francisco de Lacerda recalls how the business plan allowed them to clearly communicate the “amazing moment the company was living” (Costa, 2016; Lacerda, 2016). All the advisors corroborated the idea that the business plan was central; CMVM’s Miguel Namorado Rosa¹⁷ reiterates that it was “very well done” (Rosa, 2017). Similarly, from the point of view of JP Morgan, Francisco Clarke¹⁸ believes that “the management was able to build a very robust business plan” (Clarke, 2016).

¹⁵ Parpública – Participações Públicas SGPS, SA, is a holding company exclusively constituted by public capital. “Created by a Decree-Law in the end of 2000, it is an instrument of the Portuguese State for managing privatisation processes of SOEs or public companies.” See online <www.parpublica.pt> (last accessed 15 May 2017)..

¹⁶ Partner of Capital Markets at Vieira de Almeida & Associados (VdA) – Parpública’s legal advisor.

¹⁷ Director of Markets, Issuers and Information Supervision Department at the Portuguese Securities Market Commission (CMVM).

¹⁸ An Associate Investment Banker at JP Morgan.

In terms of pre-marketing, the CFO emphasises two major tasks:

“Firstly, [there was] the development of the teaser, which had about four to five pages and enclosed a brief description, the value drivers and some key investment highlights. Secondly, the definition of the investors/‘buyers’ list.” (Costa, 2015)

A dual-track approach

Two models were under consideration when approval for privatisation was initially given: either the “alienation would take place through a sale by particular negotiation with reference investors – a direct sale” or by means of an IPO,¹⁹ which could be combined with a “direct sale to financial institutions obliged to make a subsequent dispersion among investors” (Esteves, Cabral & Ferraz, 2014). Prevetti (2012) explains that an IPO occurs when “unissued securities²⁰ are sold by the owners of the company”. André Gorjão Costa recalls that until a decision was made “all the actors involved had been working with what we call a dual-track approach”. This approach had to consider two targets with distinct perspectives and, for instance, the differentiated needs in terms of information disclosure. While “for equity markets it was key to create an equity story that made sense”, when addressing strategic investors – interested in buying the right to control or even the whole company – “issues as the potential synergies were the core” (Lacerda, 2016; Costa, 2016).

According to André Gorjão Costa “pursuing an IPO is much more demanding in terms of information disclosure than making a direct sale” (Costa, 2016). Ritter argues that the amount and type of information required for an IPO process depends upon the company:

“The level of detail that is required depends upon the size of the company, the amount of money being raised.” (Ritter, 1998)

Given the size, value, and complexity of the CTT group, it was highly important to prepare precise and detailed information (Costa, 2016). While working on dual-track, four main steps were carried

¹⁹ IPO – Initial Public Offering.

²⁰ Common and preferred shares that are owned by stakeholders in a company that have never exchanged for money or services.

out in relation to each option. On the direct sale: Due-Diligence; Information Memorandum & Validation; Management Presentation; and Non-Binding or Binding Offer. Regarding the IPO: Due-Diligence & Auditors Tick&Tie; Prospectus & International Offering Circular (IOC) + Valuation; Management Presentation; and “Intention to Float” (Costa, 2015).

Choosing the best model: From a traditional direct sale to an audacious IPO

“In the beginning, everyone considered that the valuation would be bigger in the case we decided to sell the company as a whole to a single buyer or to a consortium: a trade deal under the logic of having a control premium, thus a better price.” (Lacerda, 2016)

In this sense, several potential strategic buyers started to show interest in the direct sale option. As Exhibit 12 shows, the list was composed of both international and national players including Correios do Brasil (Brazil), Apax Partners (UK), Consortium Montepio-Rangel (Portugal) or Urbanos (Portugal). Alfredo Casimiro, CEO of Urbanos,²¹ publicly declared that their bid would not exceed the range of between €500 million to €600 million for 100% of the capital (Exhibit 13). Considering these potential prices of intentions, the IPO option gained relevance. Francisco de Lacerda admits that if someone had asked him about the feasibility of the IPO option when he joined CTT he would not have considered it a viable option, “considering that the maximization of the price was the government’s priority, as well as the achievement of a dispersion by shareholders and geographies of the capital”. Notwithstanding this remark, however: “there was an interesting opportunity to raise funds on the capital markets” (Lacerda, 2016). The privatisation processes of Royal Mail²² and BPost²³ opened the door to the mail services industry. Sérgio Monteiro stated “those privatisations helped a lot in terms of investors’ education about the sector” (Monteiro, 2017). Besides, both Royal Mail and BPost’s IPOs were motivated by similar reasons to that of CTT’s privatisation. As Parker details:

²¹ A Portuguese privately owned company which mainly operates in logistics and distribution.

²² The UK’s leading postal operator and designated Universal Postal Service Provider.

²³ Belgium’s leading postal operator and designated Universal Postal Service Provider.

“The stated rationale for the privatisation [of the Royal Mail] is the desire by Government and Royal Mail management to have access to private capital markets in order to grow and compete.” (Parker, 2014)

Parpública’s CFO José Manuel Barros recalls an “exciting wave about the capital markets option”. The turning point occurred when it became clear that the valuation of the company via IPO could be quite a lot higher than through a direct sale. Sérgio Monteiro agrees that “price was the crucial element. However, several other issues also were taken into consideration.” Investors who had shown an interest “were either not truly strategic or not motivated enough for an operation as large as CTT’s sale”. (Monteiro, 2016)

Francisco de Lacerda, André Gorjão Costa, and Dionísia Ferreira all agree with the opinion of Sérgio Monteiro. After the tests had been performed and clarified both possibilities, it became clear that the best option was to undertake an IPO (Lacerda, 2016; Costa, 2016; Ferreira, 2017).

Deciding as to the extent: How much to alienate through the IPO?

Ritter (1998) argues that when a company decides to go public, it “will typically sell 20–40% of its stock”. Despite agreeing that “selling 100% at once is rare in equity markets,” André Gorjão Costa notes that the government’s idea was in fact to sell the whole company at once. However, Francisco de Lacerda evoked the recommendations of CTT’s financial advisors not only to not sell 100% at once, but also to provide the market with an extra guarantee. It was vital to avoid a situation where investors start wondering “why is the State running away so quickly from CTT?” Therefore, the decision was to sell, as part of the IPO, only 70% of CTT, as well as to implement a lock-up period²⁴ of nine months. “It was important to assure that [the government] was only selling a higher percentage than usual due to political commitments assumed with the Troika because of the financial assistance programme.” (Lacerda, 2016)

²⁴ “An initial public offering (IPO) lock-up period is a contractual restriction that prevents insiders who are holding a company’s stock, before it goes public, from selling the stock for a period usually lasting 90 to 180 days after the company goes public. Insiders include company founders, owners, managers, employees and venture capitalists” (Fontinelle, n.d.).

Producing robust documentation: ITF, the prospectus, IOC, and addendum

Senior management at CTT understood the relevance of producing and delivering high-quality documentation to the market. Francisco de Lacerda highlights the “focus on presenting CTT’s track record as precisely as possible”, both in the long-term (i.e. mail volumes, revenues evolution, cost structure and, for instance, EBITDA) and in the short-term (i.e. quarterly evolution of the transformation plan initiatives, future prospects, and so on) (Lacerda, 2016).

The Intention to Float (ITF) press release was published by CTT on 4 November 2013. Once the decision had been made to privatise 70% of CTT through an IPO, the need to communicate this information was virtually immediate (CTT, 2013).

Published on 19 November 2016 on CMVM’s website, the IPO prospectus included all the relevant details about the operation. (Esteves, Cabral & Ferraz, 2014). CMVM’s Miguel Namorado Rosa underlines its importance: “it was a very complete IPO prospectus, enclosing lots of information about the company, the sector, and potential risk factors” (Rosa, 2017).

The IOC (International Offering Circular) was directed to potential investors both national and international and reflected similar information to the IPO prospectus. Several peculiarities relating to international legislation triggered its creation: for the operation to be communicated internationally it was necessary to adapt the documents to specific regional requisites – notably in the USA and UK (Esteves, Cabral & Ferraz, 2014).

The addendum to the IPO prospectus reflected a deliberation from the Bank of Portugal of 27 November 2013 that authorised the constitution of a postal bank following a proposal made by CTT on 5 August 2012. From that time on, CTT was at liberty to create the banking element of the group whenever all the required conditions had been met (Lacerda, 2016). Contrary to some negative expectations, Sérgio Monteiro states that the authorization did not create perturbation, mainly because “it was not overvalued”. Besides, there was already the expectation that the upper bound price could be reached. Thus, the authorization was seen as a potential extra source of growth (Monteiro, 2017).

Dividend policy: Representing a strong, positive cue to the market

The dividend policy is the “set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders” (Investopedia, n.d.). Contrary to 1961 Modigliani-Miller’s dividend irrelevance theory, Karpavičius advocates that dividend policy is relevant for the value of a firm. His findings also suggest that the more stable a dividend policy is, the more valuable the company (Karpavičius, 2012). In relation to dividends, CTT indicated that the Board of Directors was committed to proposing at the first General Assembly meeting after privatization, a dividend amounting to €60 million (in 2013 and subsequent years). As for 2014 and the following years, CTT projected paying out dividends amounting to at least 90% of its distributable profit from the exercise (Esteves, Cabral & Ferraz, 2014).

Marketing the IPO: The remarkable CTT Road Show

Bahadir et al. (2015) argue that the marketing activities of an IPO are “of critical importance to an IPO issuer because of the capital they can contribute to the issuer”. The same authors argue that according to their findings every cue the investors can infer in this phase “will be important for reducing uncertainty” (Bahadir, DeKinder & Kohli, 2015). In this respect, the road show is a crucial element of an IPO as it consists of a series of presentations performed by senior management.²⁵ Jackie Kelley²⁶ reiterates that the information provided by a road show must be clear and precise. A study from Ernst & Young found that 82% of investors “cite the quality of the road show as a key non-financial measure in their buying decisions” (Kelley, 2014).

CTT’s senior management focused a lot of their effort on the road show. Numbers do not lie: two weeks, eight different locations and 217 investors (Costa, 2016); in fact, the IPO of CTT drew wide attention specifically due to its well-executed road show.

²⁵ The road show task force was Francisco de Lacerda (CEO), André Gorjão Costa (CFO) and Peter Tsvetkov (Privatisation Project Manager).

²⁶ Advisory Partner of Ernst & Young and the leader of the Americas IPO Network for the EY organisation.

Detailing the Initial Public Offering

The combined offering²⁷ (105,000,000 shares, 70% of the CS²⁸)²⁹ was composed of:

- Public offering: 21,000,000 shares (14% of the CS);
 - 15,750,000 shares to Portuguese retail investors (10.5% of the CS);
 - 5,250,000 shares to CTT employees (3.5% of the CS);
- Institutional offering: up to 84,000,000 shares (56% of the CS);
 - Including an over-allotment of 9,545,455 shares (6.36% of the CS) due to stabilization mechanism.

Bookbuilding and price determination

In order to assess the most suitable price range, the SCPM's report reveals that CTT bookbuilding³⁰ occurred in parallel with the road show. After closing the book and reviewing the demand, the decision about price was made by the Under-Secretary of Finance Prof. Doctor Manuel Rodrigues. Given the immense interest shown by investors, the determined price for the public offering to Portuguese retail investors coincided with the upper bound of the range [€4.10; €5.52] per share, thus €5.52 per share. Regarding the institutional offering (including the over-allotment), the same price was decided (€5.52 per share) as it could not be lower than that determined for the public offering. In terms of the employee offering, €5.24 per share was the final price given when the 5% discount on the price of public shares had been decided, making the final price for all 70% of the IPO €828 million, well above the price interval the market was available to offer for 100% of CTT (around €500 to €600 million).

²⁷ Public + Institutional Offering.

²⁸ Capital Stock.

²⁹ Two legal documents played a prominent role in the detailing of the IPO: (1) Resolution of the Council of Ministers no. 62-A/2013, dated 11 October, through which Parpública was allowed to dispose of a maximum of 70% of CTT's capital stock; and (2) Resolution of the Council of Ministers no. 72-B/2013, dated 18 November, which determines the allotments of shares for each kind of investor and defines the price range for the shares (Esteves, Cabral & Ferraz, 2014).

³⁰ Bookbuilding "is a method of price determination based on a consultation to qualified investors with the objective of clarifying the interest on the shares, adapting the offering conditions to the demand, allowing the final price to be aligned with the market" (Esteves, Cabral & Ferraz, 2014).

Finally, the stock market: A special trading session

On the public side, 21,000,000 shares (14 per cent of the CS) were transacted. Of the 5,250,000 shares (3.50% of the CS) allocated for CTT's employees, only 2,064,660 (1.38% of the CS) were bought. Nevertheless, as was obvious from the outset (Exhibit 14), demand outstripped supply in terms of the Portuguese retail investors' offer. Consequently, the remaining portion of unsold employee shares (3,185,340) migrated to meet the demand of the Portuguese retail investors, resulting in the transaction of 18,935,340 shares (12.62% of the CS). More than 25,000 shareholders participated in the operation, which resulted in a free-float³¹ of over 50%. For more detail see Exhibit 15 (Euronext, n.d.; Costa, 2015). The institutional allocation involved 84,000,000 shares (56% of the CS), from which 9,545,455 shares (6.36% of the CS) were related to the stabilization mechanism³².

With 30% ³³ left to sell: What now? A truly “Accelerated Bookbuild” (ABB)

Following the stupendous results of the 70% IPO, CTT was asked several times about the possibility of selling the 30% of shares remaining before the end of the lock-up period. However, Francisco de Lacerda and his team were always committed to keeping to the compromise (Lacerda, 2016). The chosen method was an ABB, in which “the investment bank quickly performs a bookbuilding process to some selected institutional investors without road shows” (Krakstad, 2013). One core reason behind opting for this method was, again, time (Lacerda, 2016). Nonetheless, the SCPM emphasises two other important considerations in its report concerning the second phase: (1) to boost the final value and (2) to promote capital dispersion, thus benefiting both the company and the market (Esteves, Cabral & Ferraz, 2014).

³¹ According to the financial website ‘Investing Answers’, “a company’s free float refers to the number of outstanding shares that are available to the public for trade. (...)”
See [online] <<http://www.investinganswers.com/financial-dictionary/stock-market/free-float-3579>> (last accessed 16 May 2017).

³² There was no legal requirement to disclose further details about the institutional allocation, as the SCPM report states, disclosure of this sort is not part of standard stock market procedure for private placements (Esteves, Cabral & Ferraz, 2014).

³³ In fact, this second phase of privatisation resulted in holding around 31.5% of the company, since an allotment of 2,253,834 shares (around 1.5% of capital stock), which had already been privatised via CTT’s IPO, was subsequently transferred to Parpública due to the necessity for price stabilization.

The previously described efficiency of the 2013 IPO was critical for the remarkable success of CTT's ABB. Any company would be unlikely to accomplish an ABB of this magnitude within a record timeframe without a superb marketing strategy such as CTT's IPO demonstrates, whereby potential investors already knew of the company, its strategy, and its processes. A summary of the ABB transactions can be found at Exhibit 16.

Conclusion: Understanding the Key Success Factors (KSF) of CTT's privatisation

CTT's IPO is a landmark case regarding capital markets transactions (Exhibit 17) (Costa, 2015). The final price corresponded to the top of the marketing range at €5.52 per share. The books were covered within a day and were oversubscribed many times at the IPO price by investors worldwide: 29% Portuguese, 27% British, 14% North-American, 10% German, and 20% other nationalities (Costa, 2015). And as Sérgio Monteiro pointed out, "it was the only IPO performed in a country under international assistance" (Monteiro, 2017), and even though the context helped a lot – recent privatisations of Royal Mail and BPost – this also brought the risk that the market was already "saturated by postal transactions" (ibid.).

The launch of the ABB surprised the market for its quickness, as this operation is "normally done between the closing of the markets on a certain day and its opening on the next morning" explains Francisco de Lacerda. In CTT's case, "the allocation was totally done around midnight" a few hours after the markets had closed (Lacerda, 2016).

The main KSF identified in the case could be enumerated according to five categories.

[Management Team Excellence and Cohesion] There was a unanimous opinion about Francisco de Lacerda's outstanding management and leadership skills; as well as the quality of his closest team. Besides, all Board Members were 100% aligned on all crucial decisions, as was clear in the unanimous choice to go with the IPO.

[Price] The final amounts under which the company was transacted were astonishing: €1,171 million (€828 million in the IPO transaction plus €343 million in the ABB). A value quite a lot higher than

all the bids received from potential strategic investors on the previous stage (around €500 to €600 million for 100% of the company).

[Road Show] The Road Show was undoubtedly a major KSF of the operation. Duarte Pitta Ferraz³⁴ attests to every single detail being taken into account when preparing it. In his words, “the plan was very well set up” (Ferraz, 2016).

[Dividend Policy] The dividend policy CTT management pursued was a critical cue to the market. The company pledged to pay a dividend amounting to €60 million from the first year.

[Government Support and Proactivity] The Portuguese Government was devoted to complying with the Memorandum of Understanding, thus proactively supporting achievement of the privatisation by the end of 2013.

Above all, as became clear during this research, Francisco de Lacerda’s focus and tenacity gave him the astonishing capacity to galvanise all actors involved. And this huge task was carried out on time and with stunning success.

³⁴ One of the expert members from the SCPM.

Teaching Note

Privatising CTT: The factors behind the success

1. Teaching Objectives

The CTT case-study aims to analyse the privatisation process of CTT, the historical Portuguese mail services company. More than assessing the financial transactions that composed the operation, the core pedagogical aim is to consider what was really behind the success it achieved as a landmark transaction nationally and internationally.

Even though the case could teach about the CTT privatisation process specifically, it is also a good guide to understand how the expertise and knowhow of senior management – in this case directly appointed by the government – is able successfully to guide the company and its people through the complex and multi-dimensional process that the privatisation normally is.

The roadmap for class discussion will be divided in five parts: (1) Political and Management Decision; (2) Managing Time; (3) Managing People; (4) Key Success Factors; and (5) Introducing Theory. The first and third parts will be assessed through factual questions; the second will consist of a challenge question; the fourth will be devoted to a major class discussion; and the fifth part will consist of proposed assignment questions.

2. Case Synopsis

The case follows a chronological frame when analyzing the operation. The main idea was to go beyond the financial data, which is of course also there, in order to understand how the complex interactions between the several institutions and people involved resulted in such an astonishing final output. Therefore, the first part of the case study presents the company, assessing the reasons which motivated its privatisation and detailing the preparation phase. Second, the case presents the approach to defining the model, while also discussing the output of that decision.

Focus then moves to detailing several steps and events that contributed to the operation's overall success (documentation, dividend policy, and marketing plan). Finally, an explanation of the financial side is given, not only in terms of the different offerings but also with regard to the effective transactions – including the second privatisation phase (the ABB).

3. Target Audience

The target audience of this case study is probably broader than might at first be thought. It is clear that Finance graduate students, mainly on courses related to Corporate Finance will be the core target. However, Management graduate students are also a suitable audience. Their financial knowhow enables them to understand the financial perspective and their expertise on management issues will be an advantage to understand the decisive importance senior management (quality, commitment, and excellent decisions) played in the success of the operation.

4. Case Theory and Literature Review

General guidance

The main document consulted for chronological development of this case study was the final report elaborated by the SCPM.

Financial theory

There is almost no academic literature produced on the privatisation of CTT. However, as the operation took place in two separate phases (IPO plus ABB), with a strategic lock-up period between them, the literature the author consulted related mainly to the theoretical foundations of those operations. With regards the IPO, Prevtetti's book *Everything You Need to Know About IPOs – Initial Public Offerings* was the source used most. In terms of ABB and understanding

how time impacted the decision for taking that particular option, Krakstad's article "Timing Differences between SEO Methods" was the main reference. As the Dividends Policy was one of the Key Success Factors for the operation, it was crucial for the author to re-study the Modigliani-Miller's Dividend Irrelevance theory, mainly in order to consider ideas in opposition to it. The main source was from Karpavičius: "Dividends: Relevance, Rigidity, and Signaling".

Operational literature

Every issue related to both the company and the transaction itself were analysed through several documents published by the various institutions involved (European Commission – Memorandum of Understanding; CTT – Prospectus, Addendum, Intention to Float, etc.; Euronext – Public Offering Results).

Legislation

The legal foundations of the whole process were studied through consultation of:

- Law no. 11/90, dated 5 April;
- Decree-Law no. 129/2013, dated 6 September 2013;
- Resolution of the Council of Ministers no. 62-A/2013, dated 11 October 2013;
- Resolution of the Council of Ministers no. 72-B/2013, dated 18 November 2013;
- Decree-Law no. 124/2014, dated 18 August 2014;
- Resolution of the Council of Ministers no. 54-A/2014.

5. Roadmap for Class Discussion

Part 1 – Political and Management Decision

Question 1) What were the main motivations behind the decision to privatise CTT and who made the decision?

- Extra financial capacity;
- Senior management expertise about both CEP and financial services;
- Decision made by the Portuguese Government following the signature of the Memorandum of Understanding with the Troika.

Question 2) What were the crucial steps before initiating privatisation?

- Transformation Plan;
- Strategic Review;
- André Gorjão Costa’s “To do” list:
 - (1) Advisors’ selection;
 - (2) Business plan;
 - (3) Pre-marketing;
 - (4) Choosing the right privatisation model;
- Dual-Track Approach.

Question 3) Choosing the privatisation model, i.e. the method of privatisation, was core to the whole process. What were the two main options considered in CTT’s case?

- Trade Deal: A Direct Sale to a strategic investor or a consortium created for the effect;
- Capital Markets Option: starting with an Initial Public Offering.

Question 3.1) What were the main reasons for the final choice of method/model?

- Maximizing price was paramount in the decision;
- The turning point occurred precisely when it became clear that, contrary to first impressions, the valuation could be greater via an IPO rather than through a direct sale.

Question 3.2.) Why did the other option sort of “defraud” initial expectations?

- The investors who had shown interest “*were either not truly strategic or not motivated enough for an operation as large as CTT’s sale*”. (Monteiro, 2016)

Part 2 – Managing Time

“I would not measure the mandate in years, trimesters, nor even in months.

- Lacerda, 2012

Francisco de Lacerda and his team were fully aware that their main task was to kick-off the transformation of the whole CTT group, which was utterly dependent on the success of the privatisation. Moreover, a crucial detail provided the operation with extra complexity: an extremely tight time frame (Exhibit 1).

“To be outstanding was not enough; there was also an actual need to work really fast.

After all, there was something like 52 weeks to prepare the operation and to implement its success.” (Lacerda, 2016)

Question 4) In terms of information preparation and disclosure, what were CTT’s core concerns for the operation to launch on a strong basis?

Given that this is a challenge question, there are some key points which must be touched upon:

- Privatisation would occur in 2013 (the “sense of urgency”);
- The 2012 Annual Report will serve as its basis;

- Given that it was already late 2012, there were only a few months left to prepare a very strong 2012 Annual Report.

Part 3 – Managing People

CTT was not private for around 250 years. The group counted ca. 12,000 employees, the majority of whom worked within the operations department mainly on mail and parcels distribution. The workers' unions have a strong tradition at CTT.

“Almost as old as the company, their [the Unions'] power is immense mainly due to the great distance from the company's headquarters to its countless operational hubs and retail points throughout the country.” (Silva, 2017)

Question 5) What were seen as the major risks related to the action of workers' unions?

- The ease by which they disseminated ideas against CTT's privatisation;
- Potential capacity to instill fear about the future post-privatisation among CTT employees.

Question 6) How did Francisco de Lacerda and its team manage CTT employees and its expectations during this very sensitive process?

- Francisco de Lacerda, identified from the outset that managing the question of the future as smoothly as possible was key to the operation's success;
- Delivering a constant message of calm both inside and outside the company;
- Explaining the real consequences of the privatisation (i.e. salary increases and bonus restoration) was the first concern.

Part 4 – Key Success Factors

“CTT’s IPO was an authentic landmark regarding capital markets transactions, both nationally and internationally (Costa, 2015). As the Secretary of State for Infrastructures, Transport and Communications at the time highlights, “*it was the only IPO performed in a country under international assistance*” (Monteiro, 2017). The final values under which the company was transacted were superb. Even though the context helped a lot – mainly given the recent privatisations of Royal Mail and BPost –, there was also the risk that the market was already “*saturated by postal transactions*” (Monteiro, 2017).

For this part of the class, the proposal is to promote a forum about the Key Success Factors (KSF), with which the students can identify when reading and analysing the case. In order to stimulate discussion, a two-part list about the crucial KSFs identified when performing the initial interviews can be found below.

KSF emphasised by external actors (i.e. the Portuguese Government, Parpública, CMVM, JP Morgan, VdA, PLMJ, etc.):

- (1) Unanimously agreed that Francisco de Lacerda’s management and leadership skills were outstanding; as was his ability to motivate everyone around the same objectives;
- (2) Excellence of his closest team for the project: André Gorjão Costa (CFO) and Peter Tsvetkov (Privatisation Project Manager);
- (3) Absolute focus on executing the privatisation on time and according to the highest standards worldwide;
- (4) Quality of the Business and Marketing plans (documents produced, equity story, road show);
- (5) Dividends policy;
- (6) Quality of the consultants, investment bankers, lawyers, and all advisors;

- (7) Senior management's ability to align the different perspectives and needs of all advisors
(i.e. banks are mainly concerned with guarantees, while emphasis was on price, etc.);
- (8) Externalities, i.e. previous privatisations in the sector;
- (9) Transformation plan and strategic redefinition excellence.

KSF highlighted by the company's senior management:

- (1) Superb interaction with the seller (Government/Parpública);
- (2) Meticulous selection of skilled advisors by both CTT and the Portuguese Government
(i.e. JP Morgan had previously worked on BPost's privatisation);
- (3) Robust, comprehensive, and precise preparation plan and, most of all, full compliance with it;
- (4) Total alignment between all Board members (i.e. regarding the chosen model);
- (5) Somewhat favorable context (slight recovery of the Portuguese economy; previous privatisations in the sector – Royal Mail and BPost's operations);
- (6) Strong and fully committed leadership, as well as the tenacious engagement of all other CTT managers – whose effort at motivating their respective teams was endorsed;
- (7) Professionalism and quality of the Special Scrutiny Commission for the Monitorization of CTT's Privatisation Process.

Part 5 – Introducing Theory

Question 7) Between the two phases of CTT's privatisation, a nine-month lock-up period was implemented. Why did the management and the Portuguese State decide to do this?

A lock-up period is a contractual restriction that prevents insiders who are holding a company's stock, before it goes public, from selling the stock for a certain period after the company goes

public. In this case the lock-up period was even longer than usual – normally it lasts six months. The Portuguese State – through Parpública – committed to not selling the remaining 30% for a period of nine months. The main message both the company and the Portuguese Government wanted to pass on was that the rush in transacting CTT was only due to political commitments and not because of some hidden risk. Therefore, this lock-up period aimed to show the markets everything was perfectly fine with CTT and that no one was hastily running from the company. The rushed timeframe for the successful privatisation was a condition negotiated between Portuguese Government and the Troika in the Memorandum of Understanding.

Question 8) The percentage left to sell in the second phase of the privatisation process was larger than usual (Exhibit 2). Why did management risk choosing an ABB for a huge market capitalisation of the remaining 30%?

- The ABB characteristics would be able to boost the final value (Government's main goal), as well as to promote capital dispersion (one important objective of the management);
- Besides, mastering the marketing phase of the IPO made the company very well known globally among investors; therefore the market was already asking for the alienation of the remaining 30% even before the end of the lock-up period;
- Thus, the main risks associated with an ABB had already automatically been addressed.

References

- European Commission. 2011. Portugal – Memorandum of Understanding on Specific Economic Policy Conditionality.
- Fundação Portuguesa das Comunicações. n. d. *Vencer a Distância: Cinco Séculos dos Correios em Portugal*.
- Costa, A. G. 2015. Privatization – Much More Than What it Looks. CTT.
- Esteves, J. C., Cabral, J. M., Ferraz, D. P. 2014. Relatório da Comissão Especial para o Acompanhamento do Processo de Privatização dos CTT – Correios de Portugal, S.A. – 1ª Fase.
- Preveti, J. A. 2012. *Everything You Need to Know About IPOs - Initial Public Offerings*. Newmarket, Ont.: BrainMass Inc.
- Ritter, J. 1998. Initial Public Offerings (reprinted with modifications). *Contemporary Finance Digest*, 2, no. 1 (Spring 1998), pp. 5–30.
- Parker, D. 2014. Privatisation of the Royal Mail: Third Time Lucky?. *Economic Affairs*, (1), p. 78.
- CTT. 2013. Intention to Float – Press Release.
- Fontinelle, A. n.d. What is an IPO lock-up period and how long is it?. *Investopedia*. [online] <<http://www.investopedia.com/ask/answer/12/ipo-lockup-period.asp#ixzz4gKMTuy6G>> (last accessed 16 May 2017).
- Investopedia n.d. Dividend Policy. [online] <<http://www.investopedia.com/walkthrough/corporatefinance/5/dividends/policy.aspx#ixzz4gM8sEli8>> (last accessed 16 May 2017).
- Karpavičius, S. 2012. Dividends: Relevance, Rigidity, and Signaling. *Journal of Corporate Finance*, 25, pp. 289–312.

- Bahadir, S., DeKinder, J., & Kohli, A. 2015. Marketing an IPO issuer in early stages of the IPO process. *Journal of the Academy Of Marketing Science*, 43(1), pp 14–31.
- Kelley, J. 2014. What You Need To Know About IPO Road Shows. *Forbes*. [online] <<https://www.forbes.com/sites/ey/2014/01/29/what-you-need-to-know-about-ipo-road-shows/#72aa48663a8c>> (last accessed 16 May 2017).
- Euronext n.d. Sessão Especial de Mercado Regulamentado Privatização dos CTT – Correios de Portugal SA. – Apuramento dos Resultados da Oferta Pública de Venda.
- Krakstad, S. O. 2013. Timing Differences between SEO Methods. *Economics Bulletin*, 33(4), pp. 3070–3079.
- Esteves, J. C., Cabral, J. M., Ferraz, D. P. 2014. Relatório da Comissão Especial para o Acompanhamento do Processo de Privatização (2ª Fase) e Alienação da Participação Remanescente da Parpública nos CTT – Correios de Portugal, S.A., Sociedade Aberta.

Additional sources

- CTT; Parpública. 2013. Prospeto de Oferta Pública de Venda e de Admissão à Negociação no Euronext Lisbon, Gerido pela Euronext Lisbon – Sociedade Gestora de Mercados Regulamentados, S.A.
- CTT; Parpública. 2013. Adenda ao Prospeto de Oferta Pública de Venda e de Admissão à Negociação no Euronext Lisbon, Gerido pela Euronext Lisbon – Sociedade Gestora de Mercados Regulamentados, S.A.
- CTT. 2014. Company Presentation. Espirito Santo Investment Bank – 3rd Annual Iberian Conference.
- CTT. 2014. 2013 Annual Report – A Present Future.
- CTT. 2017. 2016 Annual Report – Management Report.
- CTT. 2017. 2016 Annual Report – Financial Statements.
- CTT. 2017. 2016 Annual Report – Corporate Governance Report.

Legal documents which were the basis for the operation:

- Law no. 11/90, dated 5 April (which rules the privatisation processes in Portugal);
- Decree-Law no. 129/2013, dated 6 September 2013 (approval for privatisation of CTT);
- Resolution of the Council of Ministers no. 62-A/2013, dated 11 October 2013 (allowance to alienate a maximum of 70% of CTT's capital stock);
- Resolution of the Council of Ministers no. 72-B/2013, dated 18 November 2013 (allotment of shares and price determination);
- Decree-Law no. 124/2014, dated 18 August of 2014;

Resolution of the Council of Ministers nr. 54-A/2014.